

December 31, 1997

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
100 Cambridge Street, 12th Floor
Boston, Massachusetts 02202

RE: Western Massachusetts Electric Company Electric Restructuring Plan, D.T.E. 97-120

Dear Secretary Cottrell:

Enclosed please find an original and nine copies of the electric restructuring plan (the "Plan") of Western Massachusetts Electric Company ("WMECO" or "Company"). WMECO, an operating company in the Northeast Utilities ("NU") system, serves 59 cities and towns in western Massachusetts. This filing is submitted pursuant to Chapter 164 of the Acts of 1997 (the "Act") and the restructuring policies set forth by the Department of Telecommunications and Energy ("Department") in D.P.U. 95-30 and D.P.U. 96-100.

As indicated in this filing, WMECO stands ready to offer its retail customers a 10 percent rate decrease and choice of energy supplier on March 1, 1998. The 10 percent rate decrease will be available through standard transition service for those customers who do not choose to purchase energy from the competitive generation market. In addition, WMECO will take all possible action to mitigate its transition costs, including divestiture of its non-nuclear generating resources and securitization of its transition costs. Securitization is a particularly critical tool for WMECO in reducing rates and maintaining financial stability. Further mitigation steps will be taken consistent with the provisions of the Act.

In submitting this Plan, WMECO has the benefit of reviewing the Act and the submittals of other Massachusetts electric companies, Massachusetts Electric Company and Nantucket Electric Company ("MECO"), Boston Edison Company ("BECO"), Eastern Edison Company ("EECO") and Commonwealth Electric Company and Cambridge Electric Light Company ("ComEnergy"). The MECO, BECO and EECO plans were submitted as settlements and, on December 23, 1997, the MECO and EECO plans were approved by the Department (see D.P.U./D.T.E. 96-25-B; D.P.U./D.T.E. 96-24). By submitting this filing, WMECO does not intend to foreclose settlement of all or part of its restructuring issues. (Indeed, because the resolution of most issues is identical to those of the other settling electric companies and consistent with the Act, there should be many areas in which parties can readily agree.)

The Company recognizes that the Act requires the Department to review and rule on WMECO's filing by March 1, 1998, and WMECO will work diligently with the Department toward that result.

In closing, while WMECO's difficulty in complying with the requirements of the Act should not be minimized, WMECO believes it is in the process of overcoming the obstacles facing it and looks forward to participating with the Department and other parties in a restructured electric market beginning March 1, 1998.

Sincerely,

/s/ John H. Forsgren
Executive Vice President and
Chief Financial Officer

Enclosures

cc: Janet Gail Besser, Acting Chair
John D. Patrone, Commissioner
James Connelly, Commissioner
Michael Ernst, General Counsel
Ronald LeComte, Hearing Officer
David O'Connor, Commissioner, DOER
George Dean, Assistant Attorney General

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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Western Massachusetts Electric)	D.T.E. 97-120
Company)	
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**PETITION OF WESTERN MASSACHUSETTS ELECTRIC COMPANY
FOR APPROVAL OF ELECTRIC RESTRUCTURING PLAN**

Western Massachusetts Electric Company ("WMECO" or "Company") hereby petitions the Department of Telecommunications and Energy ("Department") to approve the enclosed electric restructuring plan (the "Plan") pursuant to Chapter 164 of the Acts of 1997 (the "Act") and the policies established by the Department in D.P.U. 95-30 and D.P.U. 96-100.

The Company further states that:

(1) WMECO is an electric company providing service to approximately 193,000 customers in 59 communities in western Massachusetts.

(2) WMECO is an operating company in the Northeast Utilities system, the largest electric utility system in New England.

(3) The Department of Public Utilities (now renamed the Department of Telecommunications and Energy) has opened several proceedings to investigate the restructuring of the electric utility industry in Massachusetts. In Electric Industry Restructuring, D.P.U. 95-30 (August 16, 1995), the Department set forth restructuring principles and directed the electric industry toward implementation of these principles. In Electric Industry Restructuring, D.P.U. 96-100 (December 30, 1996), the Department further detailed its envisioned restructuring and set

forth Model rules. The Department, in D.P.U. 96-100, stated that additional legislative authority was needed to implement fully a comprehensive restructuring plan.

(4) On February 24, 1997, legislation was filed by Governor Weld to establish the requested statutory authority for restructuring the electric industry. The Legislature's Joint Committee on Government Regulations also filed its own legislation. Ultimately, the Legislature enacted an electric utility restructuring bill and the Act was signed into law by Acting Governor Celluci on November 25, 1997.

(5) Several Massachusetts electric companies, Massachusetts Electric Company and Nantucket Electric Company ("MECO"), Boston Edison Company ("BECO"), Eastern Edison Company ("EECO") and Cambridge Electric Light Company and Commonwealth Electric Company ("COM/Energy") submitted restructuring plan settlements with the Department. The terms of these restructuring plans are similar in many respects to the requirements of the Act.

(6) The Act requires each electric company to submit a restructuring plan ("Plan") by January 1, 1998. Each plan must address a specified list of issues and provide for the implementation of restructuring elements.

(7) The Act requires electric companies to change its rates and offer additional services to customers beginning March 1, 1998.

(8) WMECO files its Plan pursuant to the Department's directives and the requirements of the Act. WMECO further believes that its Plan is consistent with the restructuring plan the Department approved for MECO and the plans filed by BECO, EECO and COM/Energy.

WMECO' Plan:

(i) Delivers a 10 percent rate decrease for those customers who opt for a standard transition service.

(ii) Provides for retail access to generation suppliers for all of the Company's retail customers as of March 1, 1998.

(iii) Includes a mitigation plan that describes the divestiture of the Company's generation resources and securitization to ensure that the highest possible mitigation of transition costs is secured.

(iv) Contains illustrative tariffs that will unbundle rates for generation, distribution and transmission service.

(v) Details the level and the method of recovery of transition charges.

(vi) Proposes programs and recovery mechanisms to promote energy efficiency and renewable resources.

(vii) Details how universal service for all customers will be provided.

(viii) Discusses the impact of the Plan on the Company's employees and the communities served by the Company.

Wherefore, Western Massachusetts Electric Company petitions the Department of Telecommunications and Energy to approve the Company's restructuring Plan.

Respectfully submitted,

Stephen Klionsky
Western Massachusetts Electric Company
260 Franklin Street, 21st Floor
Boston, MA 02110
Tel. (617) 345-4778
Fax (617) 345-4780
E-Mail klionsh@nu.com

Date: December 31, 1997

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

_____)	
Western Massachusetts Electric)	D.T.E. 97- 120
Company)	
_____)	

**WESTERN MASSACHUSETTS ELECTRIC COMPANY'S
ELECTRIC RESTRUCTURING PLAN**

I. INTRODUCTION

Western Massachusetts Electric Company ("WMECO" or "Company") hereby files for approval with the Department of Telecommunications and Energy ("Department") its electric restructuring plan (the "Plan"). This Plan sets out the process by which WMECO will, beginning March 1, 1998, initiate rate reductions, customer choice and other electric restructuring measures for its customers.

WMECO's Plan is intended to comply with the legislation enacted by the General Court and signed by the Acting Governor on November 25, 1997 (Chapter 164 of the Acts of 1997 [hereinafter referred to as the "Act"]) and the restructuring policies set forth by the Department in its previous orders in D.P.U. 95-30 and D.P.U. 96-100. It is also similar to the restructuring plans filed by Massachusetts Electric Company and Nantucket Electric Company ("MECO"), Boston Edison Company ("BECO"), Eastern Edison Company ("EECO") and Cambridge Electric Light Company and Commonwealth Electric Company ("ComEnergy"). The MECO, BECO and EECO plans were submitted as

settlements and, on December 23, 1997 the MECO and EECO plans were approved by the Department (see D.P.U./D.T.E. 96-25-B; D.P.U./D.T.E. 96-24).

The Department is faced with the daunting task of reviewing and approving a complex and interrelated series of actions for WMECO to meet various legislative implementation dates, beginning on March 1, 1998. WMECO's Plan is being presented in a way that hopefully schedules the filing and review of critical elements first and later elements after March 1st, with several issues being considered concurrently. The Plan has been prepared with the primary goal of gaining approval initially of the steps necessary to implement the required rate reductions and customer choice by March 1, 1998, as mandated by the Act. These steps suggest Department action in four areas prior to that date:

- Approval of rates and terms and conditions to be effective on March 1, 1998 necessary to implement rate reductions and customer choice as required under the Act;
- Verification of WMECO's interim transition costs, subject to future adjustment, so that they can be collected in rates effective March 1, 1998;
- Approval of interim procedures and ratemaking approaches that are necessary in the period between March 1, 1998 (the date for rate reductions and customer choice) and the date when the Department must issue orders on other provisions of the Act;
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Initiation of parallel Department review of various implementation steps that, as proposed in the Plan, will occur after March 1, 1998, such as completion of the audit and approval of securitization, the Standard Service power supply solicitation process, and the auction process for non-nuclear generation.

In order to meet the deadlines in the Act, WMECO suggests that a comprehensive schedule, as suggested and illustrated in Appendix A, be considered by the Department. Of course, the Company is fully willing to work with the Department as it develops its own schedule for reviewing and approving various elements of WMECO's Plan.

The Plan is described in detail in the separate chapters that follow, but, in summary, the eight basic elements of the Plan are:

1. A Ten Percent Rate Reduction for Retail Customers.

WMECO has filed illustrative rate schedules, supporting schedules and bill impact analyses that will provide a 10 percent rate reduction from the appropriate undiscounted class rates for those retail customers opting for standard transition service ("Standard Service"). This rate reduction is measured from the rates that were in effect as of August 1997, (excluding a temporary settlement credit of approximately 2.4 percent that expires on February 28, 1998). Thus, this filing reflects a 10 percent reduction from the rates that would otherwise be in effect on March 1, 1998. Section II of the Plan describes the development of new rates for each rate class.

While specifically not seeking a hardship exemption from the mandated rate reduction (as permitted by the Act), WMECO's financial viability over the remainder of 1998 and 1999 is dependent upon two critical measures to mitigate its costs during the

period its rates will be reduced. First, an issue faced by WMECO alone among Massachusetts electric companies in implementing the rate reduction is how to modify its generation and cost sharing agreement that is currently in effect with other Northeast Utilities ("NU") system operating companies and that is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). The agreement, known as the Northeast Utilities Generation and Transmission Agreement ("NUG&T"), has provided for a pooling of system generating and transmission facilities to maximize the economic benefits of the entire NU system's generation mix for all customers of individual operating companies like WMECO and to mitigate all companies' generating costs.

The benefits of the NUG&T will be affected by the change in load that WMECO will experience as a result of retail competition and by divestiture of its generating plants, both of which will make that agreement no longer useful for its intended purposes. However, WMECO believes it has devised an equitable procedure with regard to continuing the benefits of the NUG&T on a temporary basis until WMECO's non-nuclear generating plants are divested, which will allow the 10 percent rate reduction and customer choice to go forward on March 1, 1998. At the time of divestiture, WMECO expects to withdraw from the NUG&T in accordance with approval by the FERC. In the Plan, WMECO contemplates divestiture to occur as soon as June 30, 1998. WMECO's approach for an interim continuation of the NUG&T and the reflection of its net benefits in the variable portion of the transition charge are addressed in Sections III, IV and V of the Plan.

Second, a further important issue relating to the 10 percent rate reduction is securitization. While WMECO will deliver the rate reduction as required on March 1,

1998, the expeditious securitization of transition costs is critical to further rate reductions and to the ongoing financial stability of the Company. In Section V.B of the Plan, WMECO discusses the considerations involved in securitization and the schedule it proposes to follow in order for the Company to securitize as large a portion of transition costs as soon as possible (the Plan proposes that securitization occur by September 30, 1998).

2. Customer Choice of Energy Supplier for all Customers by March 1, 1998.

Consistent with the Act, WMECO's plan provides that, beginning March 1, 1998, the Company's customers will have the opportunity to purchase electricity from any alternative supplier, subject only to whatever licensing requirements the Department may impose. Customer choice requires several enabling steps, including the unbundling of tariffs, and entirely new systems to handle the new interfaces needed between the distribution company, alternative suppliers and customers. These include programs for billing options, energy usage determination and estimation, transfer of data, transfer of funds, release of customer information and change in customer energy service provider. Certain of these issues are addressed in the Company's proposed Terms and Conditions, as described in Section VI.A.1 of the Plan. Further, the Company will work with utmost speed to accommodate the billing options set forth in the Act in the time period required in the Act. WMECO respectfully requests the Department to approve all needed tariffs and terms and conditions on a schedule that enables it to implement the customer notice, billing, and other implementation issues on March 1, 1998.

3. Standard Service Will Be Offered to Those Customers Who Do Not Choose an Independent Energy Supplier.

As required by the Act, WMECO will provide Standard Service to those customers who choose not to select an alternate energy supplier and back-up service (“Default Service”) to those customers who are not eligible to return to Standard Service. The energy portion of WMECO’s Standard Service price path is identical to those filed by each of the other Massachusetts electric companies. It begins in 1998 at 2.8 cents per kilowatt-hour and escalates at preset levels for the following six years. As further required by the Act, Standard Service will be offered over a seven-year period, beginning March 1, 1998, and it will be obtained, after WMECO’s non-nuclear generating plants are divested and the NUG&T modifications are approved by FERC, through a competitive bid process, open to all bidders and administered by an independent third party retained by WMECO. Until the NUG&T is modified and WMECO’s plants are divested, such Standard Service shall be supplied on an interim basis from NU system generation resources, pursuant to the NUG&T. WMECO asks that the Department review and approve this solicitation process and the interim supply arrangement. Standard Service and Default Service are discussed in Section III of the Plan.

4. Recovery of Transition Costs.

Consistent with the Act and the restructuring plans filed by all other Massachusetts electric companies, the recovery of net, non-mitigable transition costs will be effected through a non-bypassable charge applied to all customers taking distribution service. The four categories of transition costs are: (1) that portion of the net book value of generating plants that is in excess of the market value (before divestiture, 100% of net book value is reflected in the transition charge); (2) that portion of the value of contractual

commitments for purchased power in excess of the market value; (3) regulatory assets; and (4) nuclear plant shut-down and decommissioning expenses. WMECO includes in this filing detailed accounting information regarding its transition costs to facilitate the initiation of the comprehensive audit to be conducted by the Department on these costs. Consistent with plans submitted by other electric companies, WMECO proposes to collect initially, prior to divestiture and securitization, transition costs related to generating plant over a period consistent with the asset's current lives, and regulatory assets over 12 years. After securitization, WMECO proposes to collect generating plant and regulatory assets over a period commensurate with the term of rate reduction bonds issued to securitize transition costs, and to collect purchased power commitments and nuclear plant shut-down and decommissioning expenses over a term consistent with the length of these obligations. Section IV of the Plan provides detailed information on the calculations of transition costs.

5. Mitigation of Transition Costs.

The Act requires aggressive mitigation of transition costs. WMECO's plan accomplishes mitigation in several important ways.

First, consistent with the policy of the other Massachusetts electric companies that have filed restructuring plans with the Department, WMECO will divest its non-nuclear generation resources as expeditiously as possible. WMECO anticipates that divestiture will occur through a competitive bid process administered by an independent third party retained by WMECO. Affiliated companies of WMECO, as permitted under the Act, are allowed to participate as bidders for the plants in the auction. WMECO asks that the Department review and approve this procedure to allow the auction to be completed as

early as June 30, 1998. The auction of generation resources through this competitive process will establish their market value and maximize cost mitigation.

Second, as described previously with regard to WMECO's ability to achieve the required rate reduction, interim continuation of the NUG&T and near-term securitization are essential components of WMECO's Plan to mitigate transition costs.

Third, although a relatively smaller percentage of WMECO's transition costs are attributable to contracts with independent power producers, the Company has attempted to reduce its obligations that represent transition costs for these contracts. Currently, WMECO has two contracts with independent power producers. WMECO will make appropriate reports as required under the Act regarding its efforts to mitigate such transition costs. Further, the Company will also include these contracts as part of the resources that it expects to auction under its plan to divest its non-nuclear generating plants. The remaining over-market portion of these contracts will be reflected in the transition charge.

Fourth, WMECO believes that an important means to mitigate its largest component of transition costs, nuclear investment, is to create a performance-based approach for sharing the economic benefits of their operation as a direct offset to WMECO's transition costs. WMECO's ownership interest in three nuclear units at Millstone Station, when they return to service, is expected to generate significant economic benefits, even in a competitive power marketplace. WMECO proposes an interim sharing mechanism that will capture these benefits as a reduction to transition costs.

Finally, an additional element of mitigation is the comprehensive audit required by

the Act. WMECO believes that the comprehensive audit can go forward immediately and WMECO is ready to meet with the Department or any outside auditor engaged by the Department to arrange for the transfer of any relevant information in order to move the process forward expeditiously. Material that can be provided now includes financial statements that have been audited by Arthur Andersen. To help the Department in developing a request for proposals for the comprehensive audit, WMECO is preparing a draft Request for Proposal and a list of large independent auditing firms, which it will submit as Appendix B, that the Department could consider.

The details of the first four elements of WMECO's mitigation are discussed in Section V of the Plan.

6. Universal Service.

Under the previous regulatory framework, an electric company had the obligation to provide integrated electric service to all customers in its service territory. In the new regulatory framework, WMECO will retain the obligation to provide distribution and transmission service to all customers in its service territory. Further, it will be required to arrange for the provision of Standard Service or Default Service for those customers who do not have an alternate supplier. In addition to the services provided to all customers, the Plan allows existing low-income residential customers, as required by the Act, to have the right to return to Standard Service at any time. Thus, all customers will be assured of universal service on a basis at least equivalent to that provided today. Section VI of the Plan provides a description of WMECO's approach to provide universal service.

7. Energy Conservation and Demand-Side Management

WMECO has been a leader in the development and implementation of demand-side

management (“DSM”) programs and will continue this development and implementation pursuant to the funding levels set forth in the Act. The Department has begun an investigation of WMECO’s planned DSM activities over the next five years in another proceeding (D.P.U. 97-106). WMECO’s DSM programs and associated activities are detailed in Section VII of the Plan.

8. Employee and Community Impact

The restructuring of the electric utility industry is likely to impact on all electric company employees over time. However, WMECO will keep its employees informed of the changing environment and, if needed, will include in its transition costs a mechanism for collecting sums that may be required for severance, retraining, early retirement, outplacement, and related expenses for all affected personnel.

With regard to community impact, the issue that has been most prominently discussed has been the possible decrease in taxable value of generating stations and the resulting decrease in taxable property for the affected municipalities. The Act requires electric companies to offset decreases in property tax payments at a level that decreases over time. WMECO’s generation assets in Massachusetts are fossil/hydro assets and decreases in taxable valuation will be known when WMECO’s auction of these generating assets are complete. Section VIII of the Plan explains the impacts on employees and communities and shows those municipalities in which WMECO’s generation is a significant portion of the municipalities’ taxable base and explains WMECO’s plans to address these impacts.

II. THE 10 PERCENT RATE REDUCTION, RATE UNBUNDLING AND ENABLING CUSTOMER CHOICE

A. Introduction

The normal process for establishing rates for regulated utilities is through the rate case process wherein the utility's costs are reviewed to assure that they are just and reasonable, and then rates are designed to produce revenues from consumers that are sufficient to recover those costs. The Act, in effect, results in a rate setting process that reverses the order of these steps. That is, the Act requires rates to be reduced by 10 percent, and then utilities must determine how to manage their costs, including recovery of transition costs, within this reduced level of revenues.

B. Financial Accounting

The Act provides that, if an electric company cannot produce the required rate reductions while maintaining sound financial condition then it can apply for relief under certain hardship provisions. This provision in the Act is important to WMECO, since their ability to retain the special accounting treatments permitted to regulated entities is contingent upon the rates they charge being based on costs. WMECO is not seeking a hardship exception. However, in its Plan, WMECO has structured its cost recovery related to charges that remain regulated such that they will be cost based. Further, if circumstances create significant financial difficulties for a utility in producing the required rate levels, the Act provides an opportunity for the utility to apply for hardship relief. Therefore, if approved as submitted, WMECO does not believe that the Plan would create financial difficulties associated with accounting standards. Section V of the Plan provides the cost basis for WMECO's charges that produce the required rate reduction.

C. Rate Unbundling

Conceptually, the implementation of the 10 percent rate reduction, through the development of unbundled tariffs, is a straight-forward process. This section of

WMECO's Plan explains the method by which WMECO has developed unbundled rates necessary for customers to choose alternative suppliers of power. In addition, it explains how the unbundled rates it proposes will produce at least a ten percent rate reduction for those customers who do not choose an alternative supplier. The Company has included as Exhibit 1, a tariff listing and the tariffs which will implement retail choice on March 1, 1998. Exhibit 1 also contains the Standard Service tariff, the Default Service tariff and the riders by which the functional elements' revenue collections will be made whole through true-up mechanisms. These elements are Transmission, Generation (Standard Service and Default Service) and Transition.

Each of the tariffs has been unbundled into the four functional elements; the three cited above and Distribution. The charges for each of the functions are separately stated so that customers can identify which portion of a tariff or bill is for each function as well as how that function's revenues are collected, (i.e., using combinations of customer, demand (per kilowatt) charges and energy (per kilowatt-hour) charges). If the types of charges (customer, demand and energy) in the proposed tariffs are summed across the functions and compared to the rates previously in effect, the sum of the customer charges, the sum of the demand charges and the sum of the energy charges are ninety percent of the pre-discount tariffs. This comparison is provided in Exhibit 2. This side-by-side comparison of each tariff's charges shows how the proposed tariffs produce the required discounts without causing intra-class discount variations between customers. While somewhat redundant, Exhibit 3 provides, for each rate, side-by-side comparisons of typical bills computed on pre- and post-discount tariffs. These also demonstrate that the ten percent rate reduction has been provided for the first year.

WMECO began the development of its proposed, unbundled rates by first defining the rates against which the ten percent rate reduction is to be applied. A rate schedule at pre-discounted revenue levels was calculated for each rate class, which included -- as appropriate -- customer, demand and energy charges. These base rate schedules were based on the Company's rate as of July 1, 1993, (D.P.U. 91-290) modified to reflect the roll-in of lost base revenues allowed in D.P.U. 94-8C-A, D.P.U. 95-8C-1 and D.P.U. 96-8C-1 (4/30/96) and further modified to reflect the Company's Fuel Expense Adjustment Clause, Energy Conservation Charge Service Rider ("ECS") and conservation charges as of August 1, 1997. This is shown in Exhibit 4. Each tariff's billing components were then reduced by ten percent. Each rate schedule was then apportioned into the four functional elements. It was during this step that necessary charges, such as uniform Standard Service and transition charges (and any known revenue target, such as transmission costs), were assured. Finally, various billing component and bill comparisons were produced to demonstrate the ten percent discount.

The development of the proposed, unbundled rates involved complex calculations which themselves required a number of assumptions. Details of the calculations, assumptions and the grounds for the assumptions have been provided in various exhibits discussed below. Supporting workpapers are provided in Exhibit 5 and unbundled revenues are shown in Exhibit 6. The following material also describes the administrative and revenue consequences of functionally unbundling tariffs for certain classes of customers, including the proposed elimination of certain rates which no longer have meaning in the context of a distribution company offering unbundled services.

1. Test Year

To consistently move between revenues and unit charges, it was necessary to select a test year with known billing units. In the rate design process, it is less important which test year is used, than it is to use it consistently. In keeping with Department preference for using historic test years, the Company selected a test year through the end of August 1997.

2. Ten percent discounts

The Company interpreted the Act to require ten percent rate reductions for all tariff customers, except those who might get a greater discount as provided under the Act for low income and farm customers. This virtually required that each rate component (i.e., customer charges, demand charges and energy charges) of pre-discount rates be reduced by ten percent. If any alternative interpretation or rate design standard were used, there would be discount variations between customers within rate classes. The unit charges of the pre-discount rates were established by summing the base, fuel, conservation and ECS charges, and reducing these charges by ten percent. These reduced charges were then the target totals of the charges of the Standard Service, Transmission, Transition and Distribution charges. By assuring that these target charges were hit, it is assured that each customer receives the target discount.

3. Rate design

Given all of the revenue, rate reduction, and rate design constraints, it was necessary to establish which of the four unbundled rate components' revenue targets was to be the residual component (i.e., the component for which the revenue was the remainder after all other known revenues were removed from the total revenue). Because the revenue required to sustain a distribution function, to pay for transmission service, and

to provide for Standard Service energy were determined, the residual revenue was the transition revenue (which then served as the basis for structuring recovery of WMECO's transition costs in a cost-based manner described in Section II.B). By virtue of this definition, the transition revenue equaled ninety percent of the total pre-discount revenue subject to discounting plus contract, back-up and interruptible rate revenue not subject to discounting minus required transmission revenue, minus Standard Service revenue at \$0.028 per kilowatt-hour, minus the total revenue required by the distribution company. This revenue was divided by the total test year kilowatt-hours ("kWh") to produce the required uniform transition charge applicable, which the Company now applied to each rate class in the rate design process, described below. The calculation of this charge is provided in Exhibit 7.

Rates for each rate class were then designed as the next step. As noted above, the Standard Service is priced uniformly for all rate classes at \$0.028 / kWh and the uniform, average transition charge per kWh was established, as determined above. Rate specific transmission charges were determined by allocating the total transmission revenue requirements (determined as the charges the Company will be billed based on FERC approved rates, for the load it will serve) using the embedded cost-of-service study ("COSS") provided in the Company's last rate proceeding, D.P.U. 91-290. Because the kWh sales to several rate classes have changed materially since that 1991 docket, the rate class revenue requirements per kWh from the COSS were multiplied by the test year kWhs and uniformly scaled to the total revenues. This calculation is shown in Exhibit 8. A copy of the transmission COSS used is provided in Exhibit 9. Now, with the uniform Standard Service charge, the uniform transition charge, and the rate specific transmission

charges being known, the residual in the final rate design process, at the rate class level, was the distribution charges.

4. Standard Service and Default Service

The Company will provide power to those customers that elect to take supply from the Company or prefer not to select a supplier other than the Company. This power supply delivered under the Standard Service will be purchased competitively in the open market.

Customers who are served on Standard Service at the time that a municipal aggregation is formed within the customer's community and who exercise their rights to opt out-of-service from such municipal aggregation within 180 days, shall be allowed to return to Standard Service at that time. Also, Low Income Discount customers will be allowed to return to Standard Service. This ability will be included in the Terms and Conditions for Distribution Service.

Default Service will be offered to customers that have selected to procure their power supply from sources other than WMECO, and, who later opt to have WMECO provide their power. This attribute is akin to the service provided under the Company's back-up service Rate PR where the customer produces its own power and returns to WMECO for its supply when its generation is not in operation. For this reason, Rate PR will be eliminated after one year as discussed in Section 7.c. After that time, customers wishing back-up service will take firm distribution service and obtain their power needs in the market or under the Company's Default Service.

5. Low Income Discount (LID)

Qualifying customers presently receive a thirty-five percent discount on their base rates. After March 1, 1998, such customers will receive the LID from the rate that reflects the ten percent discount. Because WMECO must assure payment to alternate power suppliers on behalf of LID customers, the Company is requiring that it bill LID customers even if it does not provide energy under its Standard Service. This has certain billing advantages.

To deliver the LID discounts, the Company proposes computing the LID on the basis of the LID customer's total bill, with the proviso that the LID will not apply to any alternate suppliers' charges in excess of the Standard Service price. In this fashion, the LIDs are independent of who supplies the power. Further, the LID will automatically be applied to the Standard Service pricing as this price changes in the future. By capping the energy portion of the customers' bills at the Standard Service price, there can be no gaming of the LID.

Because the basis on which the LID percentage is applied is larger due to the inclusion of the fuel charges, the LID percentage is reduced. The determination of the new LID percentage is provided in Exhibit 10. While the LID percentage is smaller, it applies to a larger portion of the customers' bills and the dollar level of the LID remains unchanged.

The recalculated LID percentage for Rates R-1 and R-3 produce slightly different percentages, (because the fuel portion of these rates' bills is different). These percentages are close enough to each other suggesting that there need be only one LID percentage applicable to both rates.

In its last rate case, the Company determined the total LID and re-allocated it to other rate classes. Since then, the LID level has increased, creating a Company subsidy, but, the LID, up to its current level, will not cause any additional intra-rate class revenue impact. However, to the extent that the qualification hurdle has changed to make the LID available to more customers, there will be additional revenue erosion experienced by the distribution company. The Company cannot shift initially any additional LID revenue shortfalls to other rate classes because to do so would violate the goal of providing all customers with a ten percent discount. In determining the unbundled rate prices, the Company has assumed that the number of recipients and total LID revenue will not change in the future.

The Company will collect detailed information on the discounts it provides to new LID customers and seek the recovery of these discounts at a later opportunity within the rate caps specified in the Act.

6. Farm service

Farm customers are to receive an additional ten percent discount off the distribution and transition charges of the already reduced general service rates. Because of the constraint that all customers are to receive a ten percent discount, there is no opportunity to collect the additional farm discount from other customers. Because of this, WMECO has proposed a new Farm Discount Rider to provide the farm customers with the additional discount, but no estimate of the total dollars of further distribution company revenue erosion has been made.

Because the Company has had no prior reason to identify and track its farm customers, it has no information on the likely extent of this program. A program of self-

certification will be undertaken to qualify farm customers before the March 1, 1998 date at which the discounted, unbundled rates become effective. WMECO will propose certification criteria for review by the Department and oversee this certification process.

The Company will collect detailed information on the farm discounts it provides to seek the recovery of these discounts at a later time consistent with the rate caps specified in the Act.

7. Treatment of certain rates

WMECO presently has a number of rates which do not readily translate into new rates in the unbundled electricity industry structure; the cost-based, regulated nature of the distribution company and the reliance upon the market to provide power-based options. A number of these rates will be eliminated on March 1, 1998 and others will be eliminated on March 1, 1999. Rates on which no customers are presently taking service and rates, the elimination of which will make its customers better off, are scheduled to be eliminated on March 1, 1998.

There are some rates which should be eliminated, but cannot be eliminated without adverse rate impacts to the customers taking service on them. These include certain optional time-of-use rates for smaller and intermediate general service customers, interruptible rates and back-up rates. In fairness to the customers presently on these rates, WMECO proposes continuing these rates for one year to allow these customers time to explore and select alternate service arrangements.

<u>Rate</u>	<u>Year Eliminated</u>
Small Residential Time of Use, Schedule R-4	1998
Large Residential Time of Use, Schedule R-5	1998
Small General Service Time of Use, Schedule T-0	1999

Primary General Service Time of Use, Schedule T-4	1999
Interruptible Service Menu, Schedule I-1	1999
Intermediate Interruptible Service Menu, Schedule I-2	1998
Buy-Back Interruptible Service, Schedule I-3	1999
Demand Reduction Rider to Rate T-2	1998
Service Extension Discount Rider	1998
Energy Conservation Service Rider	1998
Conservation Charge Rider	1998
Retail Fuel Expense Adjustment Clause	1998
Standby and Supplemental Power Service for Partial Requirements General Service Customers, Schedule PR	1999

Rates which the Company proposes eliminating by March 1, 1999 are discussed below.

- a. Small General Service Time-Of-Use, Schedule T-0 and Primary General Service Time-Of-Use, Schedule T-4 are optional, time differentiated alternatives to Rates G-0 and G-2. Customers on Rates T-0 and T-4 benefit because their usage in off-peak hours is greater than average. If optional Rates T-0 and T-4 were eliminated, and the customers on them were returned to the corresponding G-0 and G-2 rates, they would get rate increases. The company proposes keeping Rates T-0 and T-4 for one year. At that time, customers would be returned to the corresponding G-0 and G-2 rates. During that time, the customers would be eligible for Standard Service at \$0.028 per kWh if they did not elect to secure an alternate source of supply.
- b. Interruptible rates on which customers are now taking service will be eliminated in one year. This will create a rate discontinuity for the customers now on these rates. Customers on these rates now pay lower rates -- they are taking a lesser quality service. The present interruptible rates were designed as the sum of WMECO's marginal costs which produce only 60 to 70 percent of

embedded cost requirements. Going forward, these previously foregone revenues (embedded costs in excess of marginal) will be collected in transition charges. Now that these customers will be paying transition charges and firm distribution delivery charges, their rates will increase materially.

That WMECO's interruptible rates produce insufficient revenues has been noted previously. In the spring of 1995, the Company requested, and the Department approved, the elimination of interruptible rates. The Department ordered the Company to inform its customers on interruptible rates that these rates would be unavailable after the five years of the rates' terms. To be fair to these customers, WMECO proposes continuing to offer interruptible service to its current customer for one year to allow these customers to fully explore their options.

For the one year extension period, WMECO will price its interruptible rates using NU's marginal energy forecast, including the forecast buy-through costs. During the year, the Independent System Operator ("ISO") has access to these customers' interruptible load, WMECO can incorporate this load in its considerations as it procures a source of Standard Service, and the customer will have up to a year to evaluate its options and to procure its desired power supply. Alternatively, these customers will be able to obtain any energy source they wish and to take firm delivery on the appropriate WMECO general service tariff.

- c. Backup Service Rate PR is also being eliminated in one year. This will materially impact the four Rate PR customers because, under today's rate,

they pay for the distribution service they receive, but their contribution to the embedded costs of generation and transmission can be as low as \$2.00 / kW-month. This contribution is very small compared to the embedded costs that will be reflected in, and collected through, the transition charge.

Out of fairness to these customers, the company proposes continuing to provide backup service under Rate PR for one additional year after March 1, 1998. This one-year extension will provide these customers time to investigate their options and to make alternate arrangements.

Rate PR works by referring some charges back to the otherwise prevailing general service rates. Because these referenced general service rates will be discounted by ten percent going forward, the Rate PR customers will get this discount by reference. Rates that are contained within the existing PR tariff will not be discounted by ten percent.

It is not possible to fully unbundle Rate PR because the Production / Transmission charge, which is dependent on the customer's historic usage during the prior 24 months, is subject to a minimum charge and varies monthly with customer usage. Unbundled charges can be provided in the form of allocation of revenue. When energy is taken under this rate, the Standard Service charge per kWh and the Rate T-2 Transmission charge per kWh will be known. In all months, remaining Rate PR revenue would be allowed to the Transition charge and lastly, to the Distribution charge, to the extent that any revenue remains.

- a. The Company has modified its flexible rate riders; Business Recovery, Competitive Generation and Business Retention and Economic Development.

8. Treatment of contracts

Contracts between the Company and customers have been used, with Departmental approval, to address situations where general service rates were inadequate to address a customer's unique electrical service pricing need.

The Company proposes allowing customers presently getting discounts of less than ten percent, to cancel their contracts, effective March 1, 1998 so that they can return to the otherwise applicable general service rate, thereby getting the ten percent rate reduction. With this treatment, the customers will get further rate decreases. An example of this is Service Extension Discount ("SED") customers, now receiving a five percent discount on base bills, will be eligible for the ten percent rate reduction without incurring any of the early cancellation penalties in the SED rider.

Alternate arrangements will be offered for the remaining contract customers that today are receiving discounts in excess of ten percent. The Company will honor all existing contracts as long as these customers remain on Standard Service. Contract customers wishing to secure alternate energy supply will be allowed to do so as regular service customers only. Because contracting may remain a viable means of economic benefit for the Company as well as benefiting all of its customers, the Company will entertain renegotiating a contract even if a customer secures an alternate power supply.

In compliance with the Act, the Company will review, re-negotiate as necessary and revise any of the remaining contracts to assure that no customers receive any

additional price reduction resulting from the general rate decreases. Some existing contracts provide prices by referencing general service rates. With these general service rates now being discounted, these contract customers would obtain additional discounts unless these contracts are modified. Modifications will be made to reflect the existing applicable general service rate prices to assure that these contracts do not get any additional discount.

9. Other charges and fees

Requests of the Company to provide customer data by both customers and marketers have already become numerous. To avoid confusion regarding which data exchange services will be provided and which will be provided for a fee, WMECO is proposing the charges shown in Exhibit 11. This Exhibit enumerates the services that will continue to be provided free to WMECO's customers, as well as the charges that will apply to other requests or those requested by non-customers.

Fee schedules for other services will be submitted subsequent to the Department's final order in Terms and Conditions, D.P.U. 97-65. The Company's draft new Terms and Conditions are filed as Exhibit 12.

III. PROVISION OF STANDARD SERVICE AND DEFAULT SERVICE

A. Overview

WMECO's Plan enables its customers to select their own competitive suppliers or to be served through WMECO's Standard Service or Default Service. The option to select a competitive supplier will be available to all customers as of March 1, 1998. Standard Service will be available for a period of seven years, starting March 1, 1998. Default service will be available indefinitely. Generation supply for these services are expected to be procured primarily through a competitive bidding process. However, because of issues related to the NUG&T and the timing of divestiture of non-nuclear generation discussed in Sections IV and V of the Plan, WMECO proposes to begin competitively procuring supply for Standard Service and Default Service when actual divestiture occurs, which the Plan anticipates can occur by June 30, 1998. During the period before divestiture, supply for these two services will be provided by resources of the NU system, pursuant to the NUG&T, at prices consistent with those specified as ceiling prices for the solicitation supply, as described in Section III.B.5.

WMECO's Plan calls for the initiation of actions in the near term to implement the procurement of supply through competitive bids for its Standard Service and Default Service obligations. The process will be open to all qualified bidders within NEPOOL and from other control areas. The bidding process will be conducted as soon as the Department approves the solicitation proposal and will be completed prior to the divestiture date. It is WMECO's intent that the winning bidder or bidders will assure a start of service on the date of divestiture.

The winning bidder(s) will be those that offer the highest discounts against predetermined annual price caps, which range from 3.2 cents per kWh in 1998 to 5.1 cents per kWh in 2004-2005. These annual price caps are assumed to include all of WMECO's costs for installed capacity, operable capability, energy, ancillary services, tie benefits, losses, any congestion charges, and any other requirements associated with WMECO load responsibility. WMECO will recover any under-collection or refund any over-collection in accordance with specific revenue reconciliation procedures.

The details of WMECO's Standard Service, including customer eligibility, pricing rules, supplier responsibilities, and revenue reconciliation are presented in Subsections III.B of the Plan. Subsection III.C describes WMECO's Default Service approach and the solicitation process and schedule that WMECO proposes to implement over the next few months.

B. Provision of Standard Service

Standard Service will be provided to customers who elect not to be served by a competitive supplier after February 28, 1998. This service will be available during the seven-year transition period following March 1, 1998.

1. Eligibility for Standard Service

Any customer who has not chosen a competitive supplier is eligible for Standard Service until such customer opts for a competitive supplier or the seven-year transition period expires. Any customer may terminate its Standard Service at any time in favor of a competitive provider. However, except for certain cases, such customers cannot return to Standard Service. The exceptions are:

- WMECO's residential customers served by a competitive supplier during the

period March 1, 1998 through a date to be specified can return to Standard Service within 90 days of the start of the direct access supply.

- WMECO's residential customers who are eligible for low-income rates may return to Standard Service at any time.
- WMECO's former Standard Service customers who leave an authorized municipal or other load aggregation program may return to Standard Service within 180 days of starting such program.

1 Standard Service Prices

The Standard Service rates to be charged for power to retail customers will be:

<u>Transition Year</u>	<u>Price per kWh</u>
1998	2.8 cents
1999	3.1 cents
2000	3.4 cents
2001	3.8 cents
2002	4.2 cents
2003	4.7 cents
2004-5	5.1 cents

1. WMECO's Standard Service and Default Service Supply Bidding Process

The Company will begin its bidding process for soliciting supply for Standard Service and Default Service with a Request for Qualifications on January 12, 1998. The conclusion of the solicitation will be coordinated with the sale of WMECO's non-nuclear generation assets. The table below represents the Company's current proposed schedule for executing the solicitation for supply for Standard Service and Default Service.

Solicitation Time Table

<u>Action</u>	<u>Completion Date</u>
Request for Qualifications	January 12, 1998
Pre-Bid Conference	February 17, 1998
Response from Interested Suppliers	March 11, 1998
Qualified Bidders/DTE Notified	April 15, 1998
Invitation to Bid	May 14, 1998
Intent to Attend Technical Conference	June 3, 1998
Technical Conference	June 8, 1998
Bid Participation Agreement	June 15, 1998
Bidding Begins	June 22, 1998
Bidding Ends/Suppliers Identified	June 26, 1998
Contracts Signed	Date prior to divestiture

WMECO intends to solicit supply for its Standard Service and Default Service needs in increments of hourly load responsibility shares for each year of the transition period. An hourly load responsibility share represents a certain percentage of WMECO's Standard Service energy needs -- measured on a continuous basis -- and associated NEPOOL capacity and ancillary service requirements. The size of each share and the size distribution of the increments offered in the solicitation will be guided by market response to recent solicitations in Massachusetts. Any single increment or block represents the amount of energy and associated capacity that a winning bidder would have to deliver to the meters of WMECO's Standard Service customers in a particular period of time.

WMECO will monitor the Standard Service and Default Service bidding process of other Massachusetts utilities in order to enhance the opportunity for a successful solicitation process.

Assuming a sufficient amount of successful bids has been tendered, the Company will identify the Standard Service and Default Service suppliers through an established ranking procedure, determine the shares of load responsibility of the winning bidders, and

the fixed prices of services associated with their contracts for each year. If the solicitation process does not lead to full subscription of the transition period needs, the purchasers of WMECO's divested generation will provide backstop Standard Service supply to fill in the gaps and/or WMECO may conduct subsequent competitive bids using similar procedures but incorporating new market information. The backstop Standard Service prices will be capped at prices indicated in Section III.B.5. These will include the cost for all of WMECO's service requirements as defined in this Section.

4. Suppliers' Responsibilities

Successful bidders will be obligated to deliver firm, all-requirements power to the meters of the WMECO retail customers receiving Standard Service and Default Service. They also must meet all requirements and associated costs for installed capacity, operable capability, energy, ancillary services, tie benefit payments, losses and any congestion charges associated with the supplier's load responsibility as well as any other requirements that might be imposed during the term of the Standard Service and Default Service supply contracts. WMECO will arrange for Regional Network Service under NEPOOL's open access tariff, Local Network Service under the Company's distribution open access tariff and Distribution Service under the Department's retail delivery tariff.

5. Prices To Be Paid To Winning Bidders

The prices below, which are expected to be reduced by their applicable bid discounts for all energy provided to WMECO for Standard Service in the respective year, identify the maximum amount WMECO proposes to pay to suppliers. These prices are flat annual values:

Transition Year

Price per kWh

1998	3.2 cents
1999	3.5 cents
2000	3.8 cents
2001	3.8 cents
2002	4.2 cents
2003	4.7 cents
2004-5	5.1 cents

Also, in the event of substantial increases in the market price of No. 6 residual fuel oil (1 percent sulfur) and natural gas after 1999, WMECO's Plan includes the establishment of a Standard Service rate fuel adjustment mechanism, consistent with the plans by the other Massachusetts electric companies. The incremental revenues received by the Company as a result of this mechanism will be fully allocated among suppliers of Standard Service in proportion to their respective shares of the Standard Service provided by the suppliers to the Company in the applicable billing month. The amount of such incremental revenues will depend on the amount by which market fuel prices exceed the predetermined price "trigger" levels. These triggers have been set, however, to allow a large deadband in which no increase to the Standard Service price would occur.

6. Reconciliation

WMECO will reconcile the revenues received from retail customers taking Standard Service against payments made to suppliers of Standard Service and recover from or refund to retail customers any under- or over-collections. If revenues are in excess of payments to suppliers, the excess revenues shall be accumulated in an account and credited with interest calculated using the methodology for calculating interest on customer deposits specified in the Company's Terms and Conditions. The accumulated balance at the end of each calendar year shall be credited to all of the Company's retail delivery customers through a uniform per kilowatt-hour factor in the following year. If, however, the revenues received do not recover payments to suppliers, or the Company defers expenses to meet any inflation cap, the Company shall accumulate the deficiencies in the account, together with interest as calculated above, and recover those amounts through the variable portion of the transition charge to the extent permitted in accordance with any applicable inflation cap. Under-recoveries, if any, that remain after the Standard Service period ends shall be recovered from all retail delivery customers by a uniform charge commencing March 1, 2005 and ending by December 31, 2009.

1. Independent Review of the Solicitation Process

Because affiliates of WMECO will remain in the competitive generating business,

WMECO believes it is appropriate to retain an independent third party to help evaluate the winning bids from the solicitation process for Standard Service and Default Service supply. WMECO has retained the firm of Rumla, Inc. of Walnut Creek, California, to assist it in this effort.

C. Default Service

In recognition of the Company's service obligation, WMECO plans to arrange for Default Service as of March 1, 1998 for those customers who have chosen retail electricity from a non-utility affiliated generation company or supplier, but who require electric service because of a failure of such company or the supplier to provide contracted service, or who, for any reason, have stopped receiving such service and are ineligible for Standard Service, and to all customers at the end of the term of the Standard Service.

Service to individual customers under this option is expected to commence on each customer's normal cycle meter reading date following notification/determination that the customer will be taking Default Service. WMECO's procedures are designed to provide for customers to be switched from one service option to another (e.g., from Standard Service to a non-regulated power producer, from one non-regulated power producer to another non-regulated power producer, and from a non-regulated power producer to Default Service) on their normal cycle meter reading dates. However, there may be circumstances (e.g., default of a non-regulated power supplier) that might require a customer to be switched to or from Default Service "off-cycle." In such cases, the customer will be switched on a date designated by the Company.

The Default Service supplier's obligation to provide service to individual customers taking Default Service shall terminate on the earlier of: (i) the customer's normal cycle meter reading date in the month that the supplier's obligation to supply ends as stated in the Default Service Power Contract; (ii) the customer's meter reading date following notification/ determination that the customer is terminating Default Service; or (iii) such other date designated by WMECO, which will be no later than the customer's normal cycle read date in the month that the supplier's obligation to supply ends as stated

in the Default Service power supply contract. Reasons for terminations may include, but are not be limited to: (i) a customer's taking competitive service from a non-regulated power producer; (ii) disconnection of service by WMECO in accordance with regulations and procedures approved by the Department; (iii) closing of a customer's account; or (iv) a request or order from the Department.

Customers will be free to leave Default Service in favor of a competitive power supplier. There will be no limit on the number of times a customer can return to Default Service.

WMECO will issue a Request for Qualifications to potential bidders as part of its solicitation process for Default Service. Eligibility criteria will be similar to those pertaining to Standard Service. WMECO plans to solicit bids from all power suppliers within and outside of the NEPOOL region. Until the date of divestiture, Default Service will be provided at prices and terms identical to Standard Service.

Prospective suppliers will be asked to bid a single, monthly fixed price for their services on a delivered kWh-basis at customers' meters. Default Service prices may not exceed the average monthly market price of electricity as defined by NEPOOL or a jurisdictional regulatory agency. The amount of Default Service that a winning bidder must supply will be determined in accordance with its Default Service supply contract.

IV. TRANSITION COSTS

A. Introduction

The identification, calculation, accounting and mitigation of transition costs are critical elements of the Plan. Under the Act, WMECO is allowed to recover all costs associated with net, non-mitigable commitments undertaken to provide electricity to customers in their service territory in accordance with its obligation to serve. This portion of WMECO's Plan describes the determination of transition costs, mitigation measures, the calculation of cost-based transition charges that produce the same level of revenues as those included in the rate designs described in Section II of the Plan, and the Company's suggested approach for the Department to conduct the independent audit of these costs.

In Exhibit 13, WMECO has provided a calculation of the transition charge for implementation during the period from March 1, 1998 until the date of divestiture of its non-nuclear generating plants and the resulting modification of the NUG&T (as discussed below in Section V). By January 31, 1998, WMECO will file calculations supporting its proposed transition charges for the period following divestiture. (Please note that WMECO will file Exhibit 13 by January 9, 1998.)

A. Determination of Transition Costs

WMECO's transition costs are composed of fixed components related to existing investments in generating plants and regulatory assets, and variable components related to costs for which contractual or other unavoidable commitments have been made into the future.

The fixed costs related to WMECO's nuclear, fossil and hydro generating facilities are the net plant balances as of December 31, 1995, adjusted for capital additions

committed prior to that date but made subsequent to that date. Descriptions of these units are included in the pages of WMECO's FERC Form 1 report for 1995. These pages are included as Exhibit 14 to this Plan.

The transition charge that will be included in rates as of March 1, 1998 reflects amortization of these costs over their existing, remaining lives. When divestiture of non-nuclear generation occurs, the net value of the proceeds realized through divestiture will also be reflected in the calculation of transition costs and charges. When securitization occurs, the costs of those assets that are securitized will be amortized over the same period as repayment of the rate reduction bonds.

The variable component of transition costs includes above-market payments for purchased power, future power contract buyouts, nuclear decommissioning costs, and future nuclear costs independent of operation. It also provides for recovery of any above-market fuel transportation costs, payments in lieu of property taxes, generation-related transmission support payments, employee severance and retraining costs, damages or costs or net recoveries from claims, and the costs associated with the operation of the transition cost mitigation mechanism designed for the nuclear entitlements. During the interim period prior to divestiture, the net effects of the NUG&T cost sharing mechanism will be included in the calculation.

1. Nuclear Transition Costs

The largest portion of WMECO's transition costs are related to its investment in nuclear plants at Millstone Station in Waterford, Connecticut. The Company is a joint owner of three nuclear plants at the site, representing ownership shares as follows:

	<u>Total Unit Capacity</u>	<u>WMECO Share</u>
Unit 1	660 mw	19%
Unit 2	870 mw	19%
Unit 3	1,150 mw	12.24%

Costs associated with these plants include the carrying charges on the investments made in those plants (return of the investment through depreciation expense and return on investment representing interest expense and a return on the equity invested), carrying charges on capitalized plant additions, nuclear fuel, non-fuel operating and maintenance expense, property taxes, payroll taxes, and income taxes. Recovery of these costs under the Company's restructuring plan will be as described below. A detailed description of the calculation of these costs is provided in Exhibit 13.

a. Carrying Charges on Investment

Return of the previously made investment will be accomplished by means of including an annual amortization charge associated with that investment as a recoverable item through the transition charge. Initially that amortization charge will be based upon the unrecovered net book value as of February 28, 1998 on the Company's books, excluding any capital additions authorized after December 31, 1995, with recovery over the remaining license life of the particular unit in question. The net investment shall include the projected unrecovered balances for final core and end-of-life materials and supplies for the nuclear units.

Return on the investment will also be collected by applying the weighted cost of capital as of December 31, 1995, grossed up for collection of associated state and federal income taxes, to the average of the beginning and ending balances of depreciated unrecovered book value for each year. As demonstrated in Exhibit 13, the Company has

reduced its Return on Equity (“ROE”) in order to obtain a cost-based transition charge which is consistent with the amount of transition charge which will be reflected in rates beginning on March 1, 1998.

The Company will file with the Department a proposal for the market valuation of the Company’s investment in the Millstone nuclear plants. WMECO proposes that this filing be made no later than December 31, 2009 and that the valuation be completed within three months of submittal. Further, WMECO proposes that, within three months of the completion of the market valuation of the Millstone plants, the revenue requirements related to the change between the nuclear investment reflected in the transition charge prior to such date and that determined to be “at market” will be reflected as a reduction to the transition charge. The adjustment to the investment will be calculated as follows:

- The market valuation; less
- The undepreciated capital investments incurred after December 31, 1995; less
- Reasonable costs associated with the sale or market valuation.

1 Property Taxes

Property taxes associated with the Company’s investment in the Millstone nuclear plants will be recovered in two pieces. Property taxes associated with the market value of the initial investment along with property taxes associated with new plant additions will be recovered by revenue generated by selling the nuclear plants’ energy and capacity into the competitive market after termination of the NUG&T. Property taxes associated with the unrecovered net book value in excess of market value will be recovered through the transition charge.

Property taxes recovered from revenue generated in the competitive market will be calculated by applying the mill rate for the town of Waterford, Connecticut to the net plant balance associated with the market value of the Millstone plants plus unrecovered plant additions. Property taxes to be recovered through the transition charge would be calculated by taking the difference between the Millstone plant property tax bill in total less that portion associated with the market value of the Millstone plants plus unrecovered plant additions. Such calculation will reflect appropriately any legislative requirements enacted by the state of Connecticut concerning property tax for these units.

a. Unavoidable Costs

Certain costs associated with the ownership of nuclear power generation are unavoidable. That is, certain categories of costs will continue to be incurred after March 1, 1998 whether a plant operates through its license life or not. These costs are also proposed to be recovered through the transition charge. These unavoidable costs include: property taxes, Nuclear Regulatory Commission (“NRC”) fees, insurance, site and plant security, and regulatory compliance costs.

Decommissioning cost amounts will be adjusted as decommissioning studies for the Millstone plants are updated no less frequently than every two years. Decommissioning funds received will be placed in an irrevocable trust in accordance with relevant state or federal laws and regulations. Upon completion of decommissioning any remaining balances in the decommissioning trust accounts will be returned to customers.

a. Nuclear Cost Recovery Transition

In order to address concerns that the NRC may have regarding the financial viability of nuclear plant owners for operation of the Millstone plants, as well as to help

mitigate transition costs, WMECO proposes a transition period during which the transition charge will collect performance-based rates related to Millstone plant operation. The performance based rates will be calculated as follows:

- Revenue from the sale of the Millstone plants' capacity and energy produced will be reduced by total reasonable operating costs including return of and on capital additions incurred after December 31, 1995 on a cost-of-service basis not otherwise recovered in the transition charge as described above.
- To the extent that revenue is in excess of expense for a given year, 25 percent of that amount will be refunded to customers by means of a credit to the transition charge in the subsequent year.
- To the extent that expenses are in excess of revenue as described above for a given year, 25 percent of that amount will be collected through a debit to the transition charge in the subsequent year.

WMECO proposes that the transition period commence upon termination of the NUG&T and end on December 31, 2009. Calculation of revenue and expenses for purposes of measuring nuclear performance based rates will be done on a unit-by-unit basis for Millstone units 1, 2, and 3. Such calculation for a particular unit will not commence until that unit is deemed "in-service." A unit is deemed to be in-service if it is synchronized with and providing power to the grid.

The NRC has expressed significant concerns about the potential effects of restructuring on the safe operation and decommissioning of nuclear facilities. The Company must stress that its proposal for nuclear recovery, and the sharing of operational benefits, are subject to change resulting from NRC rule changes or other actions.

WMECO intends to review this proposal, and its proposal for post-shutdown costs, described below, with the NRC in the near future and will report to the Department the results of that review process.

a. Post-Shutdown Costs

If the Company should decide to shut down one or more of the Millstone units permanently, the Plan provides that the Company's share of reasonable post-shutdown costs not recovered through the decommissioning account will be recovered as an addition to the "actual decommissioning" reconciliation. The shutdown notification to the Department shall include the Company's estimate of the post-shutdown costs not covered by the decommissioning fund for the 24 month period following the shutdown date. WMECO proposes that, within 60 days of receipt of the Company's estimate, the Department shall either (1) notify the Company of its approval of the estimate or (2) schedule a hearing to resolve questions regarding the estimate. The Company proposes that it be allowed to collect revenue through the transition charge based upon the estimate, subject to reconciliation after a final order has been issued by the Department.

1. Fossil and Hydro Transition Costs

WMECO owns all or part of fossil and hydro generating units at eleven stations. These units have a net book value of approximately \$60 million as of December 31, 1995.

Because WMECO has elected to divest these plants, the transition costs to be recovered, if any, from them will be determined as a result of the divestiture process, which WMECO anticipates will occur as soon as June 30, 1998. At the time of divestiture, any net proceeds received from divestiture will be used as a Residual Credit against the transition charge.

During the period between March 1, 1998 and the date of divestiture, WMECO will include in the variable portion of the transition charge its net costs of operation of all of its generating facilities, including the netting of the benefits from the NUG&T. The calculation of costs to be included in the transition charge is described in Exhibit 13.

1. Regulatory Assets

WMECO will have approximately \$130 million associated with regulatory assets as of February 28, 1998 for which it seeks recovery in the transition charge. These regulatory assets include those regulatory assets created pursuant to the Department's orders established prior to December 31, 1995. For purposes of establishing the transition charge, WMECO has amortized these assets over a 12 year period beginning March 1, 1998. For those assets which require a return on investment, WMECO has applied a return on net balances based on the weighted average cost of capital as of December 31, 1995. The calculation of costs to be included in the transition charge is described in Exhibit 13.

1. Purchase Power Contracts

WMECO has two contracts with independent power producers. In addition, WMECO has other purchased power contracts with the Yankee nuclear facilities and Hydro Quebec.

WMECO proposes to calculate the over-market portion of these contracts annually and include them in the transition charge. This over-market amount will be trued up to reflect the results of the auction of the output from these contracts. The calculation of costs to be included in the transition charge is described in Exhibit 13.

1. Effects of Securitization

As discussed in the next section of the Plan, WMECO contemplates securitization of a significant portion of its transition costs. When that occurs, the cost of servicing the rate reduction bonds will replace the recovery of and on investments that have been securitized.

V. MITIGATION OF TRANSITION COSTS

The mitigation of transition costs has been an ongoing aspect of WMECO's historical obligation to provide reliable, least-cost service to its customers. WMECO has continued to make operating and expense decisions to minimize its total cost of service, including those costs that are to be considered transition costs as defined by the Act. WMECO will continue to mitigate all of its costs through normal, prudent management, as well as the following specific steps.

A. Divestiture

1. Auction of Non-Nuclear Generating Plants

The Act provides for divestiture as a means to determine and mitigate transition costs. WMECO will divest its non-nuclear generating plants, and it expects to accomplish divestiture through a full-scale auction of these plants. As permitted under the Act, affiliates of WMECO are allowed to participate in the auction. However, until the auction actually takes place and the results are evaluated, WMECO proposes to retain the option, provided for under the Act, to satisfy the divestiture provisions by transferring such facilities to an affiliate at a value found appropriate by the Department and consistent with the minimum values specified in the Act in place of the auction. WMECO will notify the Department immediately if it decides to exercise this option.

WMECO has retained the firm of J. P. Morgan & Company, Incorporated to assist it to prepare for and administer the proposed auction of its non-nuclear generating plants and contracts with independent power producers. That firm's qualifications, as well as an overview of the auction process and timetable are provided as Exhibit 15 in the Plan.

1. Corporate or Functional Separation of Generation, Transmission and Distribution

The Act requires an electric company which chooses to divest non-nuclear generation to "...transfer or separate ownership of generation, transmission and distribution facilities into independent affiliates of the electric company or functionally separate such facilities within 30 days of federal approval." WMECO believes that functional separation of its remaining generating (after divestiture), transmission, and distribution functions, with appropriate separation of accounting and financial information, is the most appropriate, most feasible, most cost-effective and most timely means to address the requirements of the Act for the Company.

As noted in the Plan, WMECO will auction off its non-nuclear generating facilities on the open market, and retain ownership of its nuclear assets at the Millstone Station. The Plan envisions the securitization of the above-market cost of such nuclear capacity, with the energy therefrom being sold at market rates. Receipts from such sales will offset the transition charge to retail customers, as described in Section IV. Thus, WMECO itself will not be conducting a retail merchant generation business post-restructuring although an NU affiliate may.

Furthermore, under the terms of the governing New England ISO agreement, WMECO's pool transmission facilities (PTF) are made available to the public at a regulated rate common to all similar utilities in New England. Non-PTF transmission is also made available on a non-discriminatory basis to customers on separate tariffs. Thus, transmission is not presently a competitive business in New England. Of course, by definition, distribution is a non-competitive business.

In addition, unlike some other utilities operating in Massachusetts, all of WMECO's current distribution, transmission, and generating assets are owned by a single corporation. The logistics and cost of separating thousands of distribution and transmission assets into separate legal entities would be difficult, expensive and time-consuming, especially under the severe time constraints imposed by the Act.

Given these factors, and the fact that significant synergies exist in the joint operation of transmission and distribution facilities, there is no clear economic rationale for requiring the three operating functions of WMECO into insulated, separate corporations in order to achieve the pro-competitive goals of the Act, and there are good, practical reasons why they should not be so separated. The Act gives WMECO the alternative of reorganizing into three distinct corporations or "functionally separating such facilities within 30 days of federal approval." Given the circumstances mentioned above, combined with the difficulties associated with capitalizing several new companies, (i.e., a transmission company and a distribution company), and then conveying a multitude of property rights and assets to such new companies, "functional separation" appears to be a practical and reasonable alternative consistent with the Act.

As part of the Plan, WMECO will:

- Maintain strict cost-accounting such that the generation, transmission, and distribution functions all identify assets and liabilities and operating costs as if they were separate companies. Thus, rates can be readily set for the two rate-based activities (transmission and distribution) and costs for the three functions can be properly segregated.
- Maintain separation of the transmission and distribution organizations from the NU system's merchant generation and marketing businesses, in line with the functional unbundling requirements imposed by the Federal Energy Regulatory Commission in its Rule 889 and its Orders on Standards of Conduct issued in December 1997 in Docket Nos. OA97-284-000, OA97-442-000 and OA97-630-000. While these Standards of Conduct pertain only to the merchant

wholesale generation business as it relates to transmission, WMECO will undertake to maintain the same standards with respect to its affiliates' merchant retail generation business as well. This outcome will ensure compliance with the spirit and the letter of the Act, while achieving conformity with comparable FERC rules having the same intent.

- WMECO will be prepared to segregate its transmission and distribution businesses from one another in a similar fashion should transmission become a competitive business.

B. Securitization

1. Introduction

Securitization of approved transition costs is essential to WMECO's ability to provide customer savings required under the Act and to maintain the Company's financial viability. As such, the Company requests that the Department expedite the timeframe in which securitization is made available in order to meet the provisions of the Act so that WMECO rate reduction bonds can be issued by September 1, 1998.

WMECO recognizes that securitization will not be made available unless the Company is in compliance with Section 193(1G)(d)(4) of the Act, which requires that WMECO prove to the satisfaction of the Department the following:

- (i) it has fully mitigated the related transition costs;
- (ii) savings to customers will result from securitization;
- (iii) all such savings derived from securitization shall inure to the benefit of customers;
- (iv) it has obtained written commitments that purchasers of divested operations will offer employment to impacted employees;
- (v) the electric company demonstrates that it has established, with the approval of the department, an order of preference for use of bond proceeds such that transition costs having the greatest impact on customer rates will be the first to be reduced by those proceeds.

WMECO intends to mitigate fully related transition costs, generate savings from securitization, provide all savings derived from securitization to customers, comply with

provisions regarding the impacts of divested operations on employees, and submit for approval an order of preference for use of bond proceeds.

The following subsections describe the use of securitization as a financing tool, the securitization process, the Company's proposed use of securitization and a suggested timetable that would accomplish securitization consistent with the Plan.

2. Description of Securitization

The securitization of stranded costs through the issuance of rate reduction bonds is an emerging and important element of the electric utility restructuring plans. WMECO believes that securitization is an available financing tool, which when properly applied, provides benefits both for customers and the electric companies. This financial tool can remove barriers to competitive markets, accelerate utility restructuring, fulfill past obligations to investors, and importantly, permit the Company lower rates by reducing its costs. The securitization of transition costs has recently proved itself in this regard in California with the recent issuance of approximately \$6 billion in rate reduction bonds, issued through three separate utilities.

It is important to note that securitization is not the process whereby transition cost recovery is analyzed or debated. Rather, securitization is the end result, after thoughtful and careful review through the regulatory process. Once these costs are reviewed and approved in accordance with enabling legislation, securitization merely provides a method to finance or refinance these costs at lower levels than are currently reflected in customer rates. This financing is based on bonds sold to the public and backed by a revenue stream or charge dedicated to transition cost recovery. Since this revenue stream has been approved by regulators, backed by statute and is irrevocable, the bonds receive credit

ratings that can be much higher than the underlying utility, and therefore, can significantly reduce financing costs for the company. These lower costs are then used to recalculate new electric rates at lower levels.

WMECO believes the securitization process in Massachusetts can benefit significantly from the financial and legal trailblazing for electric industry restructuring accomplished in California and the fact that asset securitization for assets like credit card and home mortgage receivables is a commonplace financing tool for companies seeking short- or long-term funding.

Securitization has its origins in the packaging and resale of residential mortgages dating to the 1970s. It has expanded to include numerous asset classes, including the financing of credit card balances, lease receivables, and home equity loans. The size of this market for all asset classes is immense, having grown to over \$180 billion in outstanding securities. This market continues to grow, due in part to the introduction of the new transition cost asset class. In November and December 1997, the three California utilities (Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric) issued approximately \$6 billion of rate reduction bonds backed by stranded costs or transition property. These were the first stranded-cost securitizations in a market that is expecting the issuance of up to \$30 billion over the next two to three years, including the next round initiated through utilities serving the states of Pennsylvania, Illinois and Massachusetts.

3. The Securitization Process

As previously stated, securitization is the end result of the refinancing of Department-approved transition costs. However, the preparation and necessary approvals

required to securitize transition costs need to begin well before ultimate Department approval of a finance order. In general, the process can be categorized into three areas:

- a) State regulatory commission approval. WMECO will submit a securitization application to the Department seeking approval of the transaction and demonstrate the net customer savings that result from securitization. Specifically, this application will present for approval the non-bypassable charge to be recovered through customer rates that will serve as the repayment stream for the rate reduction bonds. The application will also address any required true-up or rate adjustment mechanism that may affect the transition charges over time, net savings to ratepayers, use of proceeds, timing of the transaction, financing costs including those costs associated with the use of proceeds, tax and credit rating agency considerations, accounting, credit enhancement, and servicing.
- b) Issuance. Once Department approval is granted, WMECO will be in a position to issue securities as approved. Preparation for this step must start early in the process. The key elements of this step include:
 - Determining the structure of the bonds. Typically, the utility sells the rights to the non-bypassable charge (and related statutory rights) to a special purpose vehicle (SPV), which purchases such rights with funds obtained by issuing the SPV's own securities. As an option, this structure can be supported by a third-party financing entity such as the Massachusetts Industrial Finance Authority or the Massachusetts Health Educational Facilities Authority. WMECO supports this option since it mirrors the tested and proven California rate reduction bonds structure and could result in state tax-exempt bonds. This step also includes determining the maturity and amortization rate of the bonds, and whether a single bond or series of bonds will be issued and in what sequence.

- Rating the bonds. The bonds will require the ratings of at least two credit rating agencies such as Fitch Investor Service, Standard and Poor's or Moody's Investor Service. This is essentially a due diligence process conducted by the agencies themselves, which focuses on the enabling statute, Department approvals, customer base characteristics, customer and sales forecasting procedures, historical and forecasted customer growth rates, company billing and collections, meter reading, cash management, computer systems, credit delinquencies, tariff design, credit enhancement and true-up mechanisms.
- Rulings and approvals. WMECO may have to seek several technical rulings and approvals in order to issue the rate reduction bonds in the same manner as those issued in California. These may include IRS tax rulings, issuance approvals from the Securities and Exchange Commission and various legal opinions. In addition, WMECO will also have to secure a separate approval from the Department concerning its fully mitigated transition costs and will have to divest its non-nuclear generating facilities, in accordance with the Act.

- 1 Marketing. It is preferable that Rate Reduction Bonds related to WMECO transition costs be issued in one large, liquid transaction rather than in multiple issues over several months or years in order to minimize the all-in cost of the transaction and to provide optimal liquidity for investors. The large size of the offering would generate the greatest investor interest and momentum for the transaction, and maximizes the impact of an initial investor road-show and investor meetings occurring prior to the transaction's launch into the asset-backed securities ("ABS") market.

The investor road-show would include a discussion of the deregulation of the utility industry in Massachusetts, a summary of the legislation and financing order and discussion of any legal/regulatory/political challenges associated with each, a summary of the structure of the transaction, and an overview of the NU system and WMECO in particular. The road-show should

occur approximately 1-2 weeks prior to the launching of the transaction and would take place in various cities in the United States including Boston, Hartford, New York, Chicago, and San Francisco.

Once the road-show is completed, underwriters would solicit indicated pricing level interests from investors and would determine their interest levels in terms of purchase size. Underwriters would thereafter launch the transaction with specific pricing level ranges in mind for each class and would develop the book of investors who will participate in the offering. At the completion of this process, underwriters would price the issue based on the indications obtained during the launching process. This phase of the transaction is expected to take place over a 2-5 day period.

While the transaction would likely be issued in one offering, the offering itself would likely be split into multiple classes having various average lives, in order to attract the greatest breadth of investor demand. Each of the classes would be substantial in size, to offer liquidity to investors. Different types of investors would be expected to be attracted to the different classes. For example, for classes with average lives of between 0-3 years, corporate cash managers, money market funds, and banks would be expected to be primary participants. For classes with average lives of between 7-10 years, the majority of interest would be derived from life insurance companies, pension funds and investment advisors. The offering would be expected to attract a cross-section of ABS and utility investors.

It is also believed that this approach may also save repetitive fixed transaction expenses such as rating agency fees, trustee fees, accounting costs, and printing costs as well as minimize legal costs associated with the offering.

Example of a Comparable, Recent Market Transaction:

With the establishment of the California benchmark transactions, future utility asset-backed securities transactions will be more easily executed. PG&E issued \$2.9 billion in ABS, utilizing eight classes with average lives from 0.5 years to 9.5 years. All bonds were rated Aaa/AAA/AAA and all bonds were fixed rate. The issue was ten times oversubscribed across all classes. The investor base was diverse with more than 200 different investors participating -- Investor Base: Traditional ABS (70%), Corporate bond/Utility crossover (27.5%), Municipal (2.5%). Approximately 5% of the issue was placed in Europe. The all-in cost of the transaction was 62 basis points over the 5.2-year Treasury (plus 12 basis points in yield for underwriting fees).

4. Use of Proceeds

The proceeds planning process actually begins early in order to establish capital structure targets, to determine which outstanding series of debt and preferred stock are the best reduction candidates, and to design a cost-effective execution strategy. Once this process is determined and the bonds are sold, WMECO will enter the market to use the proceeds to repurchase the debt and preferred stock.

In accordance with the Act, WMECO proposes to securitize its fully mitigated transition costs, currently estimated for planning purposes to be in the order of \$500 million. The Company will provide further detail in its securitization compliance with the legislative requirement that the electric company demonstrate that the bond proceeds will

be applied first to reduce transition costs having the greatest impact on customer rates.

All savings derived from securitization and the resulting repurchase of securities will inure to the benefit of customers.

For informational purposes, WMECO's preliminary analysis indicates that securitization proceeds will be used to:

- Retire approximately \$300 million of WMECO's \$400 million long-term debt obligations;
- Retire the majority of WMECO's \$41 million preferred stock obligations;
- Reduce WMECO's common equity capitalization by approximately \$200 million;
- Pay call premiums of approximately \$5 million to retire debt and equity; and
- Pay issuance and transaction expenses of \$5 million

As previously described, WMECO will file, by January 31, 1998, its proposed transition charges for the period following divestiture of non-nuclear generation. These charges and the supporting calculations will include the impacts of securitization on the Company's costs.

1. Proposed Timetable

WMECO requests expedited treatment for approval of securitization in order to meet the March 1, 1998 rate reductions required under the Act without undue financial harm to the Company's financial position. As described above, the Company intends to comply with each provision of the Act governing the ability to use securitization.

The Company recognizes it may be the only Massachusetts electric company to request expedited treatment. But, WMECO will suffer financial harm if securitization of qualified assets does not occur on a timetable substantially consistent with the divestiture of WMECO's non-nuclear generating assets and the coincident cessation of WMECO's participation in the NUG&T. Should the benefits of securitization not be available for a

significant period of time following the date of divestiture, it is highly doubtful that WMECO would be able to remain financially viable. As previously described, the securitization of the Company's mitigated transition costs will reduce the Company's costs, and will help support the rate reductions required by the Act.

WMECO proposes the following as an example of a timetable that supports the company's request for expedited treatment for the issuance of rate reduction bonds.

<u>Time Frame</u>	<u>Event</u>
January 1, 1998	File restructuring Plan with Department
February	Initiate process to create financing entity
March	File securitization application with Department
April	File tax ruling request with Internal Revenue Service (if deemed necessary)
May	File financing documents with Securities and Exchange Commission (SEC)
June	Initiate credit rating agency servicer due diligence process
July	Receive Department finance order approval Receive preliminary rate reduction bond ratings
August	Receive favorable IRS tax ruling Receive favorable SEC ruling Market rate reduction bonds
September	Close on sale of rate reduction bonds Use proceeds of sale to retire debt, preferred stock and equity

A. Purchased Power Contracts

WMECO and the NU system have an impressive track record of renegotiating purchased power contracts. These contracts were entered into as part of WMECO's obligation to serve customers and were supported by federal and state energy policy.

Of WMECO's purchased power contracts, two are associated with independent power producers:

- A contract with MASSPOWER , which runs through 2008, and
- A contract with Springfield Resource Recovery Project, which runs through 2013.

WMECO has previously attempted to renegotiate these contracts. In addition, WMECO will attempt to further mitigate these contracts and report on the results monthly to the Department as required by the Act.

1. MASSPOWER

Subsequent to the Massachusetts D.P.U.'s decision in D.P.U. 86-218-B, denying WMECO a temporary waiver from issuing a Request for Proposals for additional capacity, in October 1988, WMECO announced in October 1988 that it was seeking 54 MW of additional capacity from cogeneration and small power production facilities pursuant to the Department's orders of August 25, 1986, January 22, 1988, July 26, 1988 and September 28, 1988. This solicitation was conducted according to 220 CMR 8.00, *et seq.*

As a result of WMECO's subsequent first competitive bidding solicitation, MASSPOWER (54 MW) was selected and awarded a long-term contract which was executed June 15, 1991. MASSPOWER was declared in-service on July 31, 1993.

WMECO has continually investigated ways to hold down or reduce electric rates paid by its customers, as evidenced by WMECO's letter to MASSPOWER, dated March

29, 1996, inviting MASSPOWER to submit proposals that would contribute to the reduction of costs borne by WMECO customers. WMECO stated that proposals could include WMECO's buy-out of the contract or buy-down of the contract rates or sales levels. WMECO was also willing to consider contract term extensions or truncations, modifications to existing payment streams, changes to security provisions, changes to scheduled maintenance provisions, and any other proposals that would meet the goal of reducing customer costs, and pointed out the possibility that differences between the parties' discount rates may make some timing modifications mutually beneficial.

By letter dated July 12, 1996, MASSPOWER informed WMECO that it did not intend to submit such a proposal.

1. Springfield

On August 1, 1986, WMECO filed with the Department an Electricity Purchase Agreement for purchase of electricity from the Springfield Resource Recovery Project. As a result of the D.P.U.'s taking no action within the 60 days following that filing, the contract was automatically approved.

As with MASSPOWER above, by letter, dated March 29, 1996, WMECO invited Fluor Irvine, owner of the refuse facility, to submit proposals that would contribute to the reduction of costs borne by WMECO customers. During a meeting with WMECO in December 1996, Fluor indicated its interest in pursuing a mutually beneficial deal at a future date when conditions become favorable.

A. Mitigation Associated with Nuclear Plant Operation

As described in Section IV.B.1 of the Plan, nuclear plants present unique concerns and opportunities in the determination and mitigation of transition costs. There is also a

significant issue in connection with the financial stability necessary that will satisfy the NRC's criteria for adequate financial resources to operate and decommission nuclear plants. WMECO's proposal addresses both of these issues. Because these units are expected to generate economic benefits into the future, WMECO's proposed sharing mechanism will help mitigate WMECO's transition costs.

Based upon the Company's expected operation of these nuclear units in the future, the total benefits, and the share that would accrue to mitigate transition costs, over the next several years are expected to be as follows:

<u>Year</u>	<u>Mitigation Benefit or (Cost)</u>
1999	\$2.5 million
2000	(\$1.2 million)
2001	\$5.4 million

A. **The NUG&T Agreement**

The NUG&T was entered into on June 1, 1970 by the Northeast Utilities operating company subsidiaries in Connecticut and Massachusetts¹ (the “Initial System Companies”) as a means to provide single system planning and operation of their respective bulk power supply systems in order to assure maximum practicable economy consistent with proper standards of reliability. (The text of the NUG&T is attached as Exhibit 16.) The NUG&T is a filed rate schedule with the Federal Energy Regulatory Commission (“FERC”). It was first filed in 1970 and was later amended on February 3, 1982.

Under the NUG&T, the total production plant capacity costs, backbone transmission capacity costs, and energy costs of the Initial System Companies are pooled and then allocated among the companies based on each company’s proportionate use of the system’s facilities, as measured by demand and energy usage.

The NUG&T contains cost of service formulae for calculating the production capacity, transmission and energy costs of each company that are subject to the Agreement. It then uses a two-part allocation formula to equalize production plant, backbone transmission and energy costs among the companies. The first part of the allocation formula allocates production plant and backbone transmission capacity costs on the basis of the respective peak demands of the companies. The current allocation formula for production plant and transmission costs uses the relation among the “Adjusted

¹ The original signatories of the NUG&T are The Connecticut Light and Power Company (“CL&P”), The Hartford Electric Light Company (“HELCO”), Western Massachusetts Electric Company, Holyoke Power and Electric Company and Holyoke Water Power Company (“HWP”). In 1983, HELCo merged with CL&P. Public Service Company of New Hampshire is not party to the NU G&T Agreement.

Annual Peaks” of the companies, as defined in the NEPOOL Agreement, as the basis for the allocation of these costs.

Under the NEPOOL Agreement, Adjusted Annual Peaks are defined as the 16-month ratcheted non-coincident peak loads of the companies. Accordingly, if one company represents 20 percent of the Initial System Companies’ peak demand as calculated pursuant to the NEPOOL Agreement definition of Adjusted Annual Peak, it will be responsible for 20 percent of the Initial System’s aggregate production capacity and transmission costs. If that company owned production and transmission facilities which comprise 25 percent of the total for the Initial System, it would be entitled to an equalization payment from the other companies, and vice versa.

The second part of the allocation formula allocates energy-related costs on the basis of the respective kilowatt-hour loads of the Initial System Companies in each billing month. Thus, a company that incurs a greater percentage of energy costs than its share of the total kilowatt-hours of energy use of all the Initial System Companies during the month will receive a payment from the other companies, and vice versa. Costs redistributed by the energy allocator include fuel expense, energy expense associated with purchases from others and NEPOOL and mini-pool interchange expense.

For accounting purposes, the Initial System Companies’ books reflect only the net difference between the average system cost and the bulk power costs for each company’s peaks prior to the NUG&T adjustment. In an instance where a company’s generating capacity cost per kilowatt is less than the system’s average capacity cost, a charge is billed to that company to bring its costs up to the average level, and a credit is given to the

company or companies whose costs are above the average cost per kilowatt of capacity. The sum of the charges and credits is zero.

As illustrated by the description above, the NUG&T is a complex capacity cost, transmission cost and energy cost pooling mechanism that is subject to the jurisdiction of FERC. Because the NUG&T serves to share and allocate costs across CL&P, WMECO and HWP, particularly in connection with capacity and energy usage, it is not consistent with the ultimate restructuring of electric utilities as set forth by the Act.

Because of its provisions, the “unwinding” of the NUG&T will cause the sharing of cost responsibilities among the companies to cease and such cessation could result in independent cost responsibilities for each company to increase or decrease. In addition, because of the “Sharing Agreement” between the Initial System Companies and Public Service of New Hampshire (“PSNH”), NU’s New Hampshire operating company, any change to the NUG&T must account for any impacts on PSNH’s costs under the Sharing Agreement. Therefore, any amendment or termination of the NUG&T must take into account the interests of electric consumers in all of the states in which NU provides service.

Despite these complexities, NU, WMECO and its affiliates are committed to modifying the NUG&T in the shortest feasible time period. Specifically, WMECO anticipates that, when its non-nuclear plants are divested, it will withdraw from the NUG&T with regard to generation costs. WMECO believes that divestiture can be accomplished by mid-1998. Such a target date is reasonable because it provides adequate time to accomplish all of the tasks connected to the NUG&T issue – auctioning fossil/hydro generation, competitively procuring standard service and obtaining FERC’s

permission to change a filed rate. As described in its Plan, WMECO is expeditiously proceeding to resolve and implement all related tasks.

While the complexities explained above will delay resolution of the NUG&T issue beyond the March 1, 1998 date, WMECO does not believe that the NUG&T will delay the implementation of retail choice on March 1. Retail choice and the retail rate reduction can go forward while WMECO is simultaneously pursuing the changes which will eliminate the NUG&T as an impediment to the newly restructured electric industry.

VI. UNIVERSAL SERVICE/DIRECT RETAIL ACCESS

A. Universal Service

Under the current system of regulation, an electric company's obligation to serve means that it had the responsibility to provide both energy and delivery service to all customers in its service territories. In the new regulatory system, the competitive market will be responsible for providing only the energy portion of customers' needs.

Distribution companies, however, will be responsible for procuring Standard Service for seven years and will be responsible for procuring Default Service indefinitely. In addition, distribution companies will continue to provide all customers the delivery services to allow customers access to market-supplied energy. Accordingly, the new regulatory paradigm generally does not eliminate any of the current universal service mandates but does require some revisions and new provisions to ensure that direct access will be implemented with as little confusion as possible.

Further, the distribution company must recognize its new relationships with its customers and their suppliers and the new mandates with respect to low-income residential customers. With the exception of Standard Service and Default Service, which are discussed in Section III of this Plan, each of the universal service components and how each accommodates direct access is discussed below.

1. Terms and Conditions

Under the new regulatory system, there will be two sets of Terms and Conditions in place of the one set in place now. One will reflect the new relationship between a distribution company and its customers ("Terms and Conditions for Distribution Service");

the other will reflect the new relationship between a distribution company and competitive suppliers (“Terms and Conditions for Competitive Suppliers”).

Pursuant to the Terms and Conditions for Distribution Service (see Exhibit 12), the Company will provide customers with service while ensuring that all customers continue to enjoy non-discriminatory access to electricity. The Terms and Conditions have been further designed to allow customers to select a competitive supplier of their own choosing or continue to receive service through the Company’s Standard Service or Default Service. The proposed Terms and Conditions to govern the relationship between the distribution company and its customers are the terms developed jointly by all Massachusetts distribution companies (based on the Department’s June 13, 1997 Model Terms and Conditions in D.P.U. 97-65), and were filed with the Department on July 11, 1997.

In its Terms and Conditions, WMECO has provided for the implementation of both Standard Service and Default Service. The Terms and Conditions include language that would prohibit customers from bypassing distribution service, thus ensuring that all customers will pay their fair share of transition costs and other applicable charges. Also included are the Department’s current billing and termination regulations that ensure that a customer’s rights are protected. Consistent with the Act, the Terms and Conditions continue the Company’s provision of metering, billing and information services to customers. In addition, as further provided in the Act, a customer will have the option later in calendar 1998 to receive a separate bill for generation service from its competitive supplier.

Additional language is included in the Terms and Conditions for Distribution Service to facilitate the accurate identification of customers and other critical information that a customer would be obligated to provide when distribution service is initiated. The Company will include a schedule of fees and charges, and an updated line extension policy, as they are developed prior to March 1, 1998.

2. Low Income Discount (LID) and Low Income Programs

a. Discount

Pursuant to the Act, the Company will provide discounted rates for low income residential customers comparable to WMECO's own low-income discount rate in effect prior to March 1, 1998. The Company will provide these discounted rates through the Low Income Discount ("LID") rider on residential rates for low income customers comparable to the low-income discount in effect prior to March 1, 1998. The LID will be calculated as described in Section II.

Customers are eligible for the LID if they are customers of record who are verified as participating in a means tested public benefit program for which eligibility does not exceed 175% of the federal poverty level. This includes Supplemental Security Income (SSI), Temporary Aid to Needy Families (TANF), Transitional Aid to Families with Dependent Children (TAFDC), Medicaid, Refugee Resettlement, Food Stamps, Low Income Home Energy Assistance Program, Veterans' Service Benefits under Massachusetts General Laws Chapter 115, income eligible tenants of public housing or state or federally subsidized housing, or other criteria for eligibility as determined by the Department.

b. Outreach

Outreach to low-income customers will be done through the agencies providing means tested public benefits. Customers participating in the Low Income Home Energy Assistance Program will be presumptively enrolled on the LID rider and will be notified within 60 days of enrollment of their rights and obligations under the program, including

the right to withdraw from the program without penalty. All residential customers will be notified three times a year of the availability of and method of qualifying for the LID rider. In addition, notice of the availability of the LID rider will also be given using more targeted mailings or publications.

a. NUSTART

In order to encourage and assist LID rider customers to use electricity safely and wisely and to maintain service year round by paying their bills, the company will provide customer educational materials by direct mail at least twice a year, will screen these customers' accounts and will offer cost-effective low income DSM appropriate to the customers' situation in accordance with the low income DSM program discussed in this Plan. Further, the Company will, by the fourth quarter of 1998, initiate a payment incentive pilot program, NUSTART, for at least 100 seriously delinquent LID rider participants who are enrolled in Standard Service. This program will provide a positive incentive for those customers to pay their full discounted bill. Based on the results of the pilot, this program could be expanded to include at least 600 seriously delinquent hardship customers in 1999. By the end of 1999, WMECO will review the program and decide whether to continue or to close the program to new entrants.

a. Guarantee of Payment

As required by the Act, the Company shall guarantee payment to the generation supplier for all power sold to low-income customers at the LID rates up to the prices that the Company charges to customers for Standard Service. Customers under this rate must be billed through the Company for all electricity suppliers. The cost of any discounts

provided to low-income customers will be included as appropriate in the rates charged to WMECO's other customers.

3. Consumer Education Task Force

Effective consumer education will be a prerequisite for consumers who exercise choice. WMECO has participated in the Consumer Education Advisory Task Force which has been developed under the aegis of the Department and the Division of Energy Resources to inform consumers of their options as the date of retail choice approaches and to facilitate the implementation of choice. Subgroups have been established to provide input on the development of the Department's Consumer Hotline and uniform disclosure information, to identify the phases of restructuring and to assist in the development of a consumer primer.

In addition to the Department sponsored activities, WMECO will develop specific programs and materials for WMECO customers to inform them of the responsibilities of distribution companies and suppliers and to provide them with tools to help them exercise their choice of supplier.

B. Direct Retail Access

A requirement for retail access is the ability of suppliers to operate and conduct retail transactions efficiently. WMECO has actively participated in a number of efforts to ensure a smooth transition to retail access. Among these efforts are:

1. Terms and Conditions for Competitive Suppliers.

Other sections of WMECO's Plan specify how direct access works on the macro level. The Terms and Conditions for Competitive Suppliers, however, provides important details of how the interface between the distribution company and the competitive supplier will operate. Like the Terms and Conditions for Distribution Service, the Terms and Conditions for Competitive Suppliers was developed jointly, based on the Department's Model, and submitted to the Department in D.P.U. 97-65. These Terms and Conditions set forth the essential obligations and prerequisites of the distribution company and competitive suppliers in the provisions of electric service to retail customers. The Massachusetts distribution companies developed these Terms and Conditions to promote standardization of practices where standardization makes sense, while permitting distribution companies to use different terms to accommodate company-specific requirements and circumstances.

Because the transition to competition will require distribution companies to incur additional costs, it is also appropriate that all participants in the competitive marketplace bear an appropriate responsibility for these costs. The Terms and Conditions should include these costs. To the extent that competitive suppliers do not

pay these costs, then WMECO proposes that they be collected through either the distribution charge or the transition charge.

1 Electronic Information Transfer

An “Electronic Transfer of Customer Information Working Group” was established as part of the Terms and Conditions proceeding to develop a process for the transfer of customer information between distribution companies and suppliers, while recognizing security and customer confidentiality requirements. On October 9, 1997, the Electronic Transfer of Customer Information Working Group submitted its report on Electronic Business Transactions (EBT) to the Department. The report covers important elements of any direct choice system including:

- a) Supplier notification to distribution companies of:

- 1 Customer enrollment with the supplier as of the next scheduled reading date.
- 2 Customer's billing choice (i.e., customer wants one combined bill from the distribution company, or customer wants an individual bill from supplier for the supplier's services and from the distribution company for distribution services.)
- 3 Billing components if the distribution company is to be performing all the billing.
- 4 A customer's energy service being discontinued by the supplier and when such termination is effective.
- 5 Notification of any changes to the enrollment information such as a billing option change.

b) Distribution company notification to a supplier:

- i. That a request for energy service from a supplier has been processed successfully.
- ii. That one of its customers has moved within the distribution company's service territory.
- iii. That its customer no longer takes generation from it, either because the distribution company received an enrollment for the customer from a new supplier or because the customer has been "final-billed" and no longer takes service from the distribution company.
- iv. Of monthly electrical usage of its customer.
- v. Of the customer's charges related to the supplier's services if the distribution company is providing all billing services.
- vi. Of amounts being credited to the supplier's accounts as the result of customer payments.
- vii. Of loads being attributed to the supplier for the purposes of ISO reporting.
- viii. Of any changes to the distribution company's billing system.
- ix. Of failure of any electronic transactions.

The conclusions of the EBT report will be tested against the requirements of the Act, which also addresses certain billing, metering and information system issues.

1. Electronic Data Interchange Testing

WMECO participated in the Electronic Data Interchange (“EDI”) testing group that was formed from the Electronic Business Transactions (“EBT”) Working Group in order to develop guidelines for suppliers and distribution companies to follow when it is time to test the EDI transactions. Each supplier must test a standard group of EDI transactions with each distribution company using the same standardized test plan.

1. Electronic Transactions

The EDI Transactions Control group was formed to coordinate the mapping of the Massachusetts data formats to the EDI standard formats and to report on the national standards for utility electronic transactions.

1. Supplier Information

A requirement for retail access is the ability of suppliers to operate and conduct retail transactions efficiently. As with other changes, WMECO has participated to develop uniform supplier education and training workshops. Additionally, the company is evaluating additional education and training methods that can be implemented in addition to the state-wide efforts.

A supplier training group was established as a subset of the EBT Working Group to develop state-wide training programs for suppliers. These training sessions will be administered by the utilities within the state, including WMECO. Some of the items that will be included on the agenda for the workshop will include: Regulatory Updates, Choice Implementation Essentials, a review of Department-approved Terms and Conditions, and an overview of the EBT standards. It is also expected that this training will offer an

opportunity to provide technical sessions on some of the more sophisticated issues such as load estimation, billing system requirements, telemetering alternatives, and other topics.

In addition to the training, the supplier group has developed a supplier guide which will be made available to all suppliers. It is expected that the supplier guide will also provide essential information to suppliers including copies of the Terms and Conditions for both the Competitive Suppliers and Distribution Customers, a copy of the EBT standards, supplier registration information as determined by the Department, telemetering options, billing requirements and options, information exchange information, and load estimation information.

1. Metering, Billing, and Information Services Report

Pursuant to the direction of the Department, WMECO and other parties initiated an effort during the summer and fall of 1997 to develop a comprehensive model to address the requirements of stakeholders in these areas. The main objectives of the effort were to:

- Develop a model that addresses the customer's need for additional metering, billing and information services (MBIS) within the present regulatory framework;
- Identify all issues most appropriately addressed through technical sessions and/or additional, working groups; and
- Identify steps which can be taken prior to January 1, 1998 to facilitate the introduction of competition in generation.

The working group reached a consensus that there were no requirements to unbundle MBIS services as a prerequisite to moving to a retail choice. The result of the intensive effort was a report submitted to the Department on October 31, 1997 by Massachusetts utilities (this report is attached as Exhibit 17).

VII. ENERGY CONSERVATION AND RENEWABLE ENERGY

A. Energy Conservation

1. Energy Conservation Plan

The Company's Energy Efficiency Plan is described in Exhibit 18. This plan includes the following:

- Detailed descriptions of proposed demand-side management programs designed to reduce market barriers to investments in energy efficiency for residential, commercial, and industrial customers, including regional market transformation initiatives.
- A proposal to deliver energy efficiency services to low-income customers through the low income weatherization and fuel assistance program network.
- Analysis of program cost-effectiveness.
- Proposed program budgets for 1998 and 1999.
- A performance incentive proposal.

2. Energy Conservation Funding and Cost-Recovery

The Act establishes funding levels through a mandatory charge at the following amounts:

1998 3.30 mills/kWh

1999 3.10 mills/kWh

2000 2.85 mills/kWh

2001 2.70 mills/kWh

2002 2.50 mills/kWh

A minimum funding level during the same period was also established at .25 mills/kWh for low-income residential demand-side management and education programs.

The 1998 and 1999 proposed program budgets and performance incentives are consistent with these funding levels. The Energy Efficiency Plan does not present budgeted expenditures for the period 2000-2002. The Company, however, will file proposed budgets with the Department and/or DOER that are consistent with the required funding levels.

The Company proposes to apply any Conservation Charge balance of over- or under- recoveries as of March 1, 1998, in addition to recoveries March 1 - December 31, 1998 through the mandatory charge, against 1998 budgeted program expenditures and the performance incentive on 1997 program expenditures authorized in D.P.U. 96-8-CC. The Company further proposes to perform an annual reconciliation of actual recoveries through the mandatory charges with actual program costs, including program expenditures and performance incentive, on a calendar-year basis. This cost-recovery process will thus fully track revenues and costs and make subsequent adjustments to annual budgeted expenditures in order to match program costs to accrued recoveries.

B. Renewable Energy

Pursuant to the Act, WMECO is to collect a mandatory per kilowatt-hour charge from all customers to support the development and promotion of renewable energy projects. These charges vary by calendar year and are as follows:

1998 -- .75 mills/kWh

1999 -- 1.00 mills/kWh

2000 -- 1.25 mills/kWh

2001 -- 1.00 mills/kWh

2002 -- .75 mills/kWh

2003 and subsequent years -- .50 mills/kWh

The revenues collected by such charges on WMECO's customers will be remitted to the Massachusetts Technology Park Corporation in accordance with the Act.

I. IMPACT ON EMPLOYEES AND COMMUNITIES

A. Introduction

WMECO has been working diligently to facilitate a smooth transition to a restructured electric industry. In this process, WMECO has sought to ensure that its employees and the many cities and towns served by WMECO all achieve a full understanding of the changes in the market place. As discussed below, WMECO believes that, as a result of these efforts and through continued outreach programs to employees and the communities served by WMECO, an efficient transition will be achieved.

B. Employee Programs

1. Educational Efforts

Discussion of the restructuring of the electric utility industry has been incorporated as a part of WMECO's communications program since 1995. These communications have been designed to create, in part, an educated and knowledgeable workforce that will be crucial in carrying out further public education campaigns. In addition, these discussions prepare the workforce for the significant changes that are forthcoming in the electric industry as it relates to their own jobs.

Specific employee communication efforts have included: (a) regular discussions between senior management and employees at all levels of the organization; (b) a series of briefings on restructuring issues for those employees that have interactions with customers and community leaders; (c) articles and updates in monthly and daily employee communications; (d) ongoing departmental meetings; (e) individually addressed letters from senior management on relevant issues; (f) grassroots workshops focusing on the

changing electric utility industry, and (g) articles and meetings to provide training in Code of Conduct requirements.

As restructuring commences, WMECO will continue educational programs for employees. These efforts will include: (a) development of written materials and a series of presentations to employees; (b) development of detailed training programs for customer service, district and customer support representatives as well as a speakers' bureau; and (c) the use of group meetings, employee communications, electronic mail and the NU internet web site to provide further details on restructuring issues. In addition, Call Center personnel in both Massachusetts and Connecticut will be trained to respond to customers' questions about restructuring. These employees will also become familiar with the Company's billing and revenue system for third-party billing. WMECO views the successful implementation of these education programs as being critical to the overall restructuring process.

2. Other Employee Impacts

In anticipation of the restructuring of the electric industry and as part of an exhaustive effort to reduce costs, WMECO has undergone a significant streamlining of operations and a consolidation of certain functional areas. In particular, the number of employees has been reduced by approximately 35 percent since 1992 through job reductions and attrition. Moreover, tight control of pay and benefit increases has been exercised for managerial and administrative employees. WMECO has also implemented a consolidation of various functions to improve the efficiency of operations. In some cases, this has involved a shifting of work locations for personnel among WMECO's offices.

As the divestiture process progresses, the impact on jobs will receive close attention. It is the Company's expectation that power generation personnel covered by relevant collective bargaining agreements will be hired by any new plant owners. In any event, employees displaced through the divestiture process will be eligible for severance benefits. The costs of any such severance, outplacement, retraining or other related employee transition costs associated with industry restructuring will be recovered through WMECO's transition charge.

Apart from power-generation functions, WMECO expects that it or an affiliate will continue to serve transmission and distribution functions and provide safe and reliable service on behalf of its customers. Accordingly, no significant additional reductions in the level of employees in these areas are anticipated at this time.

C. Community Issues

1. Customer Education

WMECO has had an active program to educate customers about the electric industry restructuring process. The strategy for this outreach has been to: (a) start a process and to build awareness about the relevant issues; and (b) correct any confusion that was present. Specific efforts have included restructuring workshops for customers; forums for industrial, commercial and government customers; and, restructuring presentations to individual customers. In addition, meetings with municipal and community leaders have been conducted.

Educational programs for customers will continue. A speakers' bureau and a question and answer training session are being developed for meetings with media, community, industry, civic, senior citizen and low-income groups. Training will also be

provided to suppliers, and a supplier registration unit will be established to enable a smooth transition to customer choice.

Materials will be developed and distributed as appropriate at formal presentations and trade shows, as well as to city and town halls, libraries and senior centers. Other mechanisms such as videos, bill inserts, radio and newspaper advertisements, information booths, and an internet web site will also be implemented as part of the continuing communications outreach. In addition, a toll-free line which customers can use to obtain brochures will be established. WMECO will continue active participation in other community programs and economic development activities. WMECO believes that all of these approaches will ensure that all customer groups have available the necessary information to ensure an efficient movement to customer choice.

Moreover, WMECO expects that several communities and organizations, such as Chambers of Commerce, may develop plans to aggregate loads to buy electricity in bulk. These aggregated groups may present important opportunities for customers, particularly residential and small business customers, to save on their electricity costs. WMECO has, and will, cooperate fully with groups in their aggregation efforts and will assist as appropriate in informing customers of such aggregation options.

2. Property Tax Issues

WMECO pays personal property and real estate taxes to each community in the Company's service territory. These taxes are based on the fair market value of the property owned by WMECO. With the exception of taxes paid to communities hosting power production facilities (see Exhibit 19), changes brought about by restructuring are not anticipated to significantly change the amount of taxes paid to local communities.

WMECO believes that the new owners of the power production facilities will assume all personal property and real estate taxes levied by each host community except as provided in the Act.²

At this time, because WMECO's non-nuclear generating plants have not yet been sold or auctioned, it is not known what market value and related assessments the host communities might place on these plants. However, depending on the proceeds of WMECO's divestiture process, certain facilities may be sold for values in excess of their book value and, as a result, there may be no loss of property tax revenue. WMECO anticipates that discussions with affected communities regarding in lieu of property tax agreements will be held over the ensuing months.

² To the extent that distribution companies are to assume tax liability for payments in lieu of taxes associated with their former generating assets, such expenses would be collected in the Company's transition charge.